

Message Text

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POUCHED ALL CONSULATES IN CANADA

E.O. 11652: N/A
TAGS: ECON, EINV, CA
SUBJ: FINMIN MACDONALD HINTS AT RELAXATION OF PROFIT CONTROLS

1. SUMMARY. IN SPEECH IN TORONTO ON JANUARY 24, FINMIN MACDONALD HINTED BROADLY THAT PROFIT CONTROL GUIDELINES WOULD BE RELAXED IN NEAR FUTURE IN ORDER IMPROVE INVESTMENT SITUATION IN CANADA. STILL PLACING HEAVY EMPHASIS ON NEED CONTROL INFLATION, MACDONALD REFUSED SAY WHEN HE WOULD RECOMMEND LIFTING ENTIRE CONTROL PROGRAM. "FRESH ASSESSMENT" OF ECONOMIC PICTURE IN U.S. WILL PLAY MAJOR ROLE IN FUTURE ECONOMIC POLICY DECISIONS: ADDRESSING QUEBEC SEPARATION ISSUE, MACDONALD STRESSED "THOUSAND AND ONE LEGAL AND ADMINISTRATIVE ARRANGEMENTS" WITHIN CONFEDERATION AN ASKED RHETORICALLY HOW ANY NEW ECONOMIC UNION COULD PROVIDE MORE GOOD WILL OR "SENSE OF DIRECTION" THAN CONFEDERATION. END SUMMARY.

2. FINMIN MACDONALD SPOKE TO CANADIAN CLUB OF TORONTO ON JANUARY 24, WITH MAJOR PORTION OF SPEECH DIRECTED TO NEED FOR PRIVATE CAPITAL INVESTMENT INCREASE IN CANADA TO PROVIDE
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EMPLOYMENT AND HIGHER PRODUCTIVITY. KEY TO SUCH INCREASE, ACCORDING MACDONALD, WAS RATE OF RETURN ON INVESTMENT (PROFIT) WHICH IS NOW "BELOW POINT NECESSARY TO ATTRACT FRESH INVESTMENT INITIATIVES".

3. REVIEWING 1976 ECONOMIC YEAR, MACDONALD RECITED SOME ECONOMIC SUCCESSES: REAL GROWTH APPROACHING 5 PERCENT,

OUTPUT PER PERSON EMPLOYED GROWING BY "WELL OVER 2 PERCENT," REAL WAGES INCREASING BY MORE THAN 4 PERCENT, RECORD WHEAT CROP, HOUSING STARTS REACHING 270,000 NEW UNITS, MERCHANDISE TRADE TURNING FROM DEFICIT TO SURPLUS, AND DOMESTIC SALES OF 850,000 AUTOMOBILES ("A MARK OF CONFIDENCE AND A FIRM UNDERPINNING IN A BASIC INDUSTRY").

4. NEGATIVE DOMESTIC FACTORS LISTED BY MACDONALD INCLUDED: MANY CANADIAN EMPLOYERS FACING HIGHER WAGE COSTS THAN AMERICAN COMPETITORS, UNEMPLOYMENT REACHING 7.5 PERCENT AT END OF YEAR, AND UNDER-UTILIZATION OF PLANT CAPACITY.

5. ALTHOUGH INTERNATIONAL ECONOMIC SITUATION HELD MANY UNCERTAINTIES, MACDONALD SAID, THERE IS "STRONG POSITIVE SIDE" TO WORLD ECONOMY. HE THEN OUTLINED DEVELOPMENTS IN U.S. WHICH HE CONSIDERED TO BE ECONOMIC PLUSES; E.G., INCREASED CONSUMER AND BUSINESS CONFIDENCE, GROWTH IN EMPLOYMENT AND PROFITS, PROSPECTS FOR CLOSE COOPERATION BETWEEN CONGRESS AND EXECUTIVE, AND NEW ADMINISTRATION PROPOSALS FOR "SIGNIFICANT BUT MODERATE STIMULUS."

6. LOOKING FORWARD TO 1977, MACDONALD STATED THAT HE IS ENGAGED IN DISCUSSIONS WITH BUSINESSMEN ABOUT FUTURE POLICY AND THAT NEXT WEEK FINANCE MINISTERS WILL MEET TO DISCUSS "CONSISTENT AND MUTUALLY REINFORCING POLICIES." AFTER THESE DISCUSSIONS AND "A FRESH ASSESSMENT OF THE PICTURE IN THE U.S.," MACDONALD WILL STUDY "BROAD POLICY AND INSTRUMENTS WE REQUIRE."

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7. ON SPECIFIC SECTORS OF CANADIAN ECONOMY, MACDONALD SAID THAT IN 1977 EXPORTS "MAY NOT GROW AS STRONGLY AS IN 1976;" THERE WILL BE CONTINUING RESTRAINTS ON GOVERNMENT SPENDING; PERSONAL INCOME WILL NOT GROW AS MUCH AS LAST YEAR, AND GROWTH IN LABOR FORCE WILL PUT PRESSURE ON UNEMPLOYMENT RATE. CONTINUATION OF LOWER CANADIAN DOLLAR EXCHANGE VALUE (MACDONALD REFUSED PREDICT EXCHANGE RATE) WILL "STRENGTHEN OUR COMPETITIVE POSITION."

8. RETURNING TO SUBJECT OF INVESTMENT, MACDONALD SAID THAT CANADA NEEDED PROGRESSIVE RECOVERY IN ORDER INCREASE EMPLOYMENT AND RAISE PRODUCTIVITY. FINANCE DEPARTMENT WAS STUDYING SYSTEM OF INFLATION ACCOUNTING TO ATTEMPT RESOLVE PROBLEM OF INVENTORY PROFITS AND CAPITAL REPLACEMENT DURING INFLATION PERIODS. HOWEVER, AS MINISTER OF FINANCE, MACDONALD SAID HE WAS AWARE THAT LEVEL OF PROFITS (I.E., RATE OF RETURN ON INVESTMENT)

"IS BELOW THE POINT NECESSARY TO ATTRACT FRESH INVESTMENT INITIATIVES." "ENHANCING THE ROLE OF INVESTMENT IS GOING TO BE AN IMPORTANT ITEM ON OUR AGENDA FOR 1977." SINCE BUSINESS COMMUNITY HAS TOLD HIM UNCERTAINTY ABOUT TIMETABLE OF CONTROL PROGRAM AFFECTS INVESTMENT DECISIONS, MACDONALD SAID "WE INTEND PROVIDE ANSWERS...IN 1977."

9. MACDONALD THEN REITERATED GOC COMMITMENT TO INFLATION FIGHT AND SAID THAT ONE OF THE BEST CONTRIBUTIONS TO INVESTMENT CLIMATE IS "CONSOLIDATE AND MAKE STILL FURTHER GAINS" IN LOWERING INFLATION LEVELS. ALTHOUGH HE WOULD LIKE TO SEE CONTROLS END BEFORE DECEMBER 1978, "WE NEED TO MAKE FURTHER PROGRESS IN REDUCING RATE OF INFLATION."

10. TURNING TO QUEBEC SITUATION, MACDONALD SAID THAT UNCLASSIFIED

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"SINCE NOVEMBER 15TH LAST THERE HAS BEEN INSTALLED IN QUEBEC CITY A GOVERNMENT DEVOTED TO DESTROYING CONFEDERATION AS WE HAVE KNOWN IT." MAINTAINING PARTNERSHIP BETWEEN ENGLISH-SPEAKING AND FRENCH-SPEAKING CANADIANS, HOWEVER, IS "ONE OF THE HIGHEST PRIORITIES FOR OUR NATIONAL GOVERNMENT."

11. SEPARATISTS CONTEND, ACCORDING TO MACDONALD, THAT "ENGLISH-SPEAKING CANADIANS ... ARE UNABLE

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ACCEPT THE FRENCH FACT IN CANADA (AND) THAT WE WILL NOT TOLERATE THE CONTINUED DEVELOPMENT OF THE FRENCH LANGUAGE AND CULTURE WITHIN CONFEDERATION." HOWEVER, "WE MUST EMPHASIZE OUR CONVICTION ... THAT CONTINUED CLOSE PARTICIPATION BETWEEN FRENCH-SPEAKING AND ENGLISH-SPEAKING CANADIANS IS OUR PROFOUND WISH."

12. SECONDLY, MACDONALD SAID, EVEN LEADERS OF BUSINESS USE ARGUMENT THAT "SEPARATION OF QUEBEC WOULD PROVIDE AN EASIER, A TROUBLE-FREE FUTURE." BUT, HE MAINTAINED, RECONCILIATION OF DIFFERENCES, CAN BEST BE ACCOMPLISHED THROUGH CONFEDERATION, AND "VAGUE TALK ABOUT ECONOMIC UNION, OR COOPERATION OR A SHARED CURRENCY, WILL NOT, I HOPE, ENSNARE THE GULLIBLE."

13. "THOUSAND AND ONE LEGAL AND ADMINISTRATIVE ARRANGEMENTS" CURRENTLY EXIST WITHIN CONFEDERATION, "BUT WE ARE ASKED TO BELIEVE THAT IT WOULD BE PREFERABLE TO TAKE APART THAT WHOLE FRAMEWORK OF COOPERATION AND SOMEHOW TO PUT TOGETHER ANOTHER ONE." "IF THERE IS NOT ENOUGH GOOD WILL AMONG THOSE WHO SHARE A COMMON NATIONALITY, WHAT IN HUMAN EXPERIENCE WOULD JUSTIFY ONE TO THINK THAT THERE IS GOING TO BE ANY MORE GOOD WILL BETWEEN

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TWO SEPARATE STATES?"

14. MACDONALD CLOSED BY ASSURING HIS AUDIENCE THAT HE FORESAW "SUBSTANTIAL PROGRESS IN OUR ECONOMIC SITUATION."

15. COMMENT. MANY ECONOMISTS HAVE NOTED SLUGGISH INVESTMENT PROJECTIONS FOR CANADA IN 1977, AND EVEN AID CHAIRMAN JEAN LUC-PEPIN ACKNOWLEDGED LAST WEEK THAT PROFIT RESTRAINTS OF CONTROLS PROGRAM HAD IMPACTED ADVERSELY ON CAPITAL INVESTMENT IN 1976. DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE YEAR-END REVIEW (SEE OTTAWA 61), WHICH CALLED FOR PUBLIC ACCEPTANCE OF GROWTH IN CORPORATE PROFITS WAS FIRST INDICATION THAT GOC WAS RETHINKING ITS PROFIT GUIDELINES UNDER ANTI-INFLATION PROGRAM. NOW MACDONALD MAKES PUBLIC DEFENSE OF PROFITS, AND HIS STATEMENT COULD BE SIGNAL TO BUSINESS COMMUNITY THAT PROFIT CONTROL GUIDELINES WILL BE RELAXED IN NEAR FUTURE (EITHER BY RAISING PERCENTAGE BASE OR ALLOWING GREATER INVESTMENT INCENTIVES). THUS, "EXCESS" PROFIT MAY NO LONGER BE

OPERATIVE PHRASE FOR BUSINESS COMMUNITY.
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